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Collison, David

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David Collison

Accounting and Finance, School of Business

University of Dundee

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Professor David Collison
School of Business
University of Dundee
Dundee, DD1 4HN
Scotland, UK

Tel: +44 (0)1382 384192
Fax: +44 (0)1382 388421

Email: d.j.collison@dundee.ac.uk

Income Inequality and Child Mortality in Wealthy Nations

Abstract

This chapter presents evidence of a relationship between child mortality data and socio-economic factors in relatively wealthy nations. The original study on child mortality which is reported here, and which first appeared in a UK medical journal, was undertaken in a School of Business by academics with an accounting and finance background. The background to why academics from such a discipline were drawn to investigate these issues is given in the first part of the chapter. The findings relating to child mortality data were found to be a special case of a wide range of social and health indicators which were systematically related to different approaches to the organisation of capitalist societies. In particular, what have been called the "Anglo-American" countries show consistently poor outcomes over a number of indicators including child mortality. Considerable evidence has been adduced in the literature to show the importance of income inequality as an explanation for such findings. An important part of the chapter is the introduction and overview which it presents of a relatively recent publication in the epidemiological literature by Wilkinson and Pickett: their work is entitled "The Spirit Level: Why Equality is Better for Everyone".

The author of this chapter is an academic in a business school with a background in accounting and finance. This is not a common background for a contribution to the "Hidden Hunger" conference on which this book is based. Therefore the first part of this chapter will try to explain how the author's interest in this area developed and how such a perspective may be relevant to child health (and that of wider society).

Child mortality is, of course, an issue whose main focus is on the unacceptably high figures in poor countries. However it is also a social indicator which is reported for the developed industrial countries and within those countries systematic variations exist. These variations correlate very closely to different "varieties of capitalism" and it is the contention of this chapter that these variations amount to a serious indictment of one form of capitalism in particular.

What has been termed the "Anglo-American" or "stock-market" form of capitalism can be contrasted with what has been called "welfare" or "stakeholder capitalism" [1],[2],[3],[4]. An alternative and largely equivalent description of these broad classifications is given by Hall and Soskice[5] and Hall and Gingerich[6]. They used the terms "liberal market economies" (LMEs) and "co-ordinated market economies" (CMEs) respectively. The former group, the LMEs, comprises Australia, Canada, Ireland, New Zealand, the UK and the US and, amongst this group, the UK and UK have been identified as relatively "pure" cases. Amongst the CMEs, Germany, Austria, the Nordic countries and Japan are cited as being particularly characteristic of this type although the term arguably covers all the advanced economies that are not in the LME group. These two groups of countries have also been distinguished by reference to their legal origins, with a "common law" framework being identified with Anglo-American socio-economic traditions and variations of a "civil law" approach being identified with those of the other countries.

What lies at the heart of the differences between these groups of countries is, it has been argued, the way that corporations operate within the legal frameworks and cultural traditions of the countries concerned. In particular, the question: "in whose interests should companies be run?" is key to a fundamental distinction between the two broad forms of capitalism discussed above. Indeed Hall and Soskice, in a study[5] intended to link comparative political economy with business studies, stated that they regard "companies as the crucial actors in a capitalist economy" [p.6].

This important difference between corporate philosophies can be simply described: the Anglo-American tradition is that companies should be run in the interests of shareholders (in other words they should be run so as to maximise shareholder value). By contrast, the social market tradition is based on balancing the interests of a range of stakeholders. Which of these two approaches is in the best interests of society as a whole may be seen as a political question, but it is also a question that can be very clearly informed by empirical evidence as discussed later in this chapter.

However, in the author's experience, this question is rarely considered or even acknowledged in the Anglo-American business culture. Instead, the maximisation of shareholder value is taken for granted in the teaching of accounting and finance as the incontestable objective of corporations.

Variations in accounting traditions reflect these traditional differences. In broad terms the German accounting tradition, for example, emphasises prudent valuations, protection for creditors, consequent limitations on dividends to shareholders and the retention of funds for reinvestment in the company. Anglo-American accounting practices emphasise the provision of "decision useful information" to investors in order to help them maximise the returns from their share ownership. Typically these characteristics are accompanied by more distributions of funds to investors with commensurately less reinvestment in companies.

The claimed superiority of the Anglo-American approach extends to international accounting standards. In a report by a UK professional body of accountants[7] it was argued that politicians should: "agree to give up their sovereignty over accounting standards in favour of an international but essentially private sector body" [p.16]. The private sector body in question is the International Accounting Standards Board (IASB) which evolved from its predecessor, the International Accounting Standards Committee (IASC). The formation of the IASC took place in 1973, the same year that the UK joined the European Economic Community (the forerunner of the European Union) and it has been claimed in the academic accounting literature that that the IASC was formed in order to resist the possible spread of a European accounting culture to the UK.

Both the IASC and the IASB are widely perceived as spreading an Anglo American accounting culture through their standards. In 2005, the chair of the European Parliament's Economics and Monetary Affairs Committee stated that the role of the US-dominated IASB could lead to "the financialisation of the [world] economy" which could itself result in "management boards being more concerned about financial markets than about the true economic well-being of the company" [8].

The unquestioned superiority of the Anglo-American version of capitalism, and its approach to corporate governance in particular, has been a regular feature of the business media in LMEs. Continental European countries have been described as "overburdened by social security commitments … [and where] shareholder value cannot be released as aggressively …as in the US" [9]. Financial Times (FT) editorials have prescribed for Japan "the discipline of modern management and accounting" [10] and noted "social barriers" to "widespread restructuring" [11]. A report in the FT [12] described deregulation of European labour markets continuing at "snail's pace" as "treasured social cohesion" impeded "a more robust, Anglo-Saxon style of capitalism". An FT feature on the Japanese economy chastised Japan for its "cherished social contract", noting that it was no longer viable and calling for "a more flexible labour market" [13].

The dismissive tone of such media comment regarding social criteria prompted the author and colleagues to make a comparative investigation into social outcomes. The particular metric investigated was child mortality since the ability to nurture children seemed to be as good a single measure as any for assessing the health of a society. And relevant data was also readily available from UNICEF. The resulting study – of under 5 child mortality in the 24 richest OECD countries - was published in the *Journal of Public Health* [14].

There were three key findings in that paper. Firstly, when ranked by child mortality, the worst countries were the six described above as the Anglo-American LMEs. The worst of all were the two countries described (see above) as being the most pure cases of LMEs: these were the US (8 deaths per thousand up to the age of 5) and the UK (with a figure of 6.5). The best six countries were the Nordic countries and Japan (Sweden was best with a figure of 3.25). The next 12 countries in terms of performance comprised continental European countries and the Republic of Korea, with rates from 5 to 5.5. These figures were four year averages for the years 2001-2004 based on the UNICEF surveys published in the years 2003-2006 respectively.

The second main finding was that there was a very strong correlation (significant at the 0.1 per cent level) between the child mortality figures and measures of income inequality.

Thirdly, the relative ranking of the LMEs had deteriorated over time. The UNICEF figures allowed a longitudinal analysis to be made and it was clear that, several decades earlier, the Anglo American countries had occupied middle or upper positions in the equivalent relative ranking (it should be noted that all countries had improved their absolute performance). This period of worsening relative performance has seen the development of neo-liberalism and the increasingly shrill, Anglo-American, emphasis on maximising returns to shareholders.

More correlations between income inequality and poor health and social indicators

During the course of the work reported in the *Journal of Public Health*[14], it became apparent to the authors that child mortality was a special case of a much more general phenomenon amongst relatively wealthy countries, whereby income inequality had been shown to be strongly correlated with a wide range of social indicators. In this context the work of the social epidemiologist Richard Wilkinson has been particularly important and influential. In their recent book entitled *The Spirit Level: Why Equality is Better for Everyone*[15], Wilkinson and Pickett summarise much of the work that has been done in this area by themselves and others. As with the child mortality study reported above, the correlations they report concern the relatively rich developed economies. In addition to child mortality they show "a strong relationship between inequality and many different health outcomes". These outcomes include: life expectancy, teenage births, obesity, mental illness, drug & alcohol addiction, homicides, imprisonment levels, trust, attainment in maths and literacy, and social mobility. Figure 1 reports the relationship between income inequality and an index based on each of these indicators.

[Figure 1 here]

It should be noted that, amongst the countries studied, neither health nor social problems are correlated to national income per head – see Figure 2. Social and health outcomes are indeed related to per capita income as it rises from poverty levels to those of the developed countries, but there comes a point, beyond the "epidemiological transition", when further increases in income have no observable effect. Beyond that point what matters is the income distribution within countries, rather than between countries. The US provides a clear example of a country with a very high level of per capita income but with particularly poor health and social outcomes.

[Figure 2 here]

Another key point, emphasised by Wilkinson and Pickett, is demonstrated in Figure 3 below.

[Figure 3 here]

The research summarised in Figure 3 exemplifies a common finding that relatively better indicators in less unequal countries are not only found amongst the least well-off levels of society, but can persist across all levels. This finding is reflected in the subtitle of the work by Wilkinson and Pickett[15] which reads *"Why Equality is Better for Everyone".*

Evidence on causation

Differing health outcomes which are correlated with income inequality (based, typically, on international comparisons and also on comparisons of US states) might immediately lead to the inference that differences in material well-being are the fundamental cause. But the evidence of poorer outcomes occurring at all levels of society in more unequal countries, and the lack of correlations with per capita incomes, point to a less obvious, but perhaps an even more important, source of causation. Wilkinson and Pickett argue that the "biology of chronic stress is a plausible pathway which helps us to understand why unequal societies are almost always unhealthy societies" [p.87].

The details of their findings regarding causation go beyond the scope of this chapter but Wilkinson and Pickett cite a range of studies from different cultural contexts which support their argument. Physiological evidence is also adduced whereby psychosocial factors affect, in turn, the psyche, the neural system and the immune system. In particular, significant evidence is based on the effects of two hormones, cortisol and oxytocin.

This chapter was motivated by an investigation into child mortality and it seems appropriate to return to that issue to update the evidence on relative figures that were reported by Collison et al.[14]. The most recent equivalent data based on averaging UNICEF's figures for 2011 and 2012 still show a similar picture to those for 2001-2004 with five of the bottom six places occupied by the Anglo-American countries – the exception being Ireland which has improved its relative position. The top places are still occupied by mainly Nordic countries, together with Japan and now also Luxembourg. Again it should be emphasised that all 24 countries have improved in absolute terms. The complete listing in ascending order of the average 2011-2012 child mortality figures is as follows: Iceland (2.25), Luxembourg (2.6), Sweden (2.9), Finland (2.95), Norway (3.05), Japan (3.20), Portugal (3.7), Denmark (3.85), Italy (3.85), Germany (4.00), Ireland (4.00) , Netherlands (4.00), France (4.05), Austria (4.10), Belgium (4.15), Switzerland (4.20), Republic of Korea (4.25), Spain (4.60), Greece (4.7), Australia (4.9), UK (5.05), Canada (5.3), New Zealand (5.95), USA (7.25).

In the light of the evidence cited above one might ask why the Anglo-American business culture is held up as an example to follow. Arguably this is simply because of the influence of dominant vested interests, as reflected in some of the examples drawn from the FT. Such influence is not new; indeed Adam Smith, who has been called the “father of economics”, stated in his famous work *“The Wealth of Nations”* [16] that: "the clamour and sophistry of merchants and manufacturers easily persuade ... that the private interest of a part, and of a subordinate part of the society is the general interest of the whole” [Bk. I, Ch. X, Pt. II, p. 101].

Finally and, I would argue, regrettably, there is evidence to suggest that of the two kinds of capitalism outlined above, it is the Anglo-American version that is spreading to other societies, rather than vice versa. A review of that evidence is beyond the scope of this chapter but, to cite one example, in a 2003 study Christel Lane[17] concluded that Germany: “is in the process of converging towards the Anglo-American model” [p.79] which would have “far-reaching practical consequences … increasing the level of social inequality in German society” [p.98]. She also argued that such change is not inevitable. I hope that greater awareness of the social evidence will make such a process less likely in Germany and elsewhere, and even help to reverse it.

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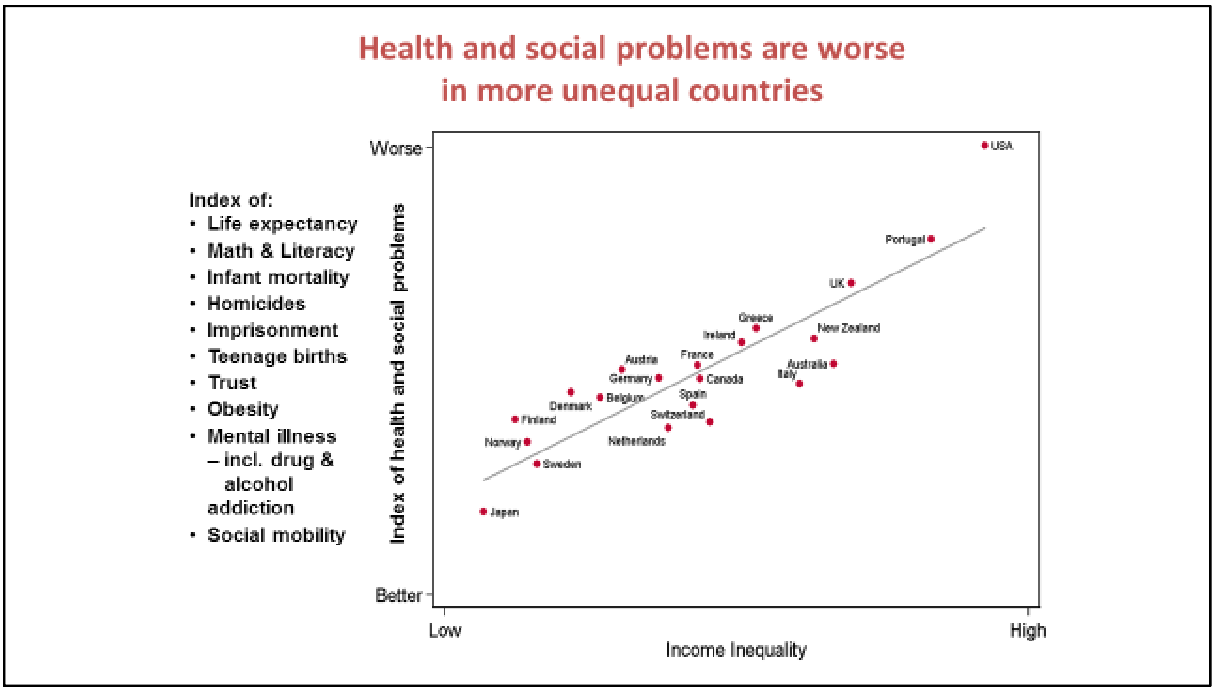

Figure 1 [adapted from Wilkinson and Pickett [15], p.20]

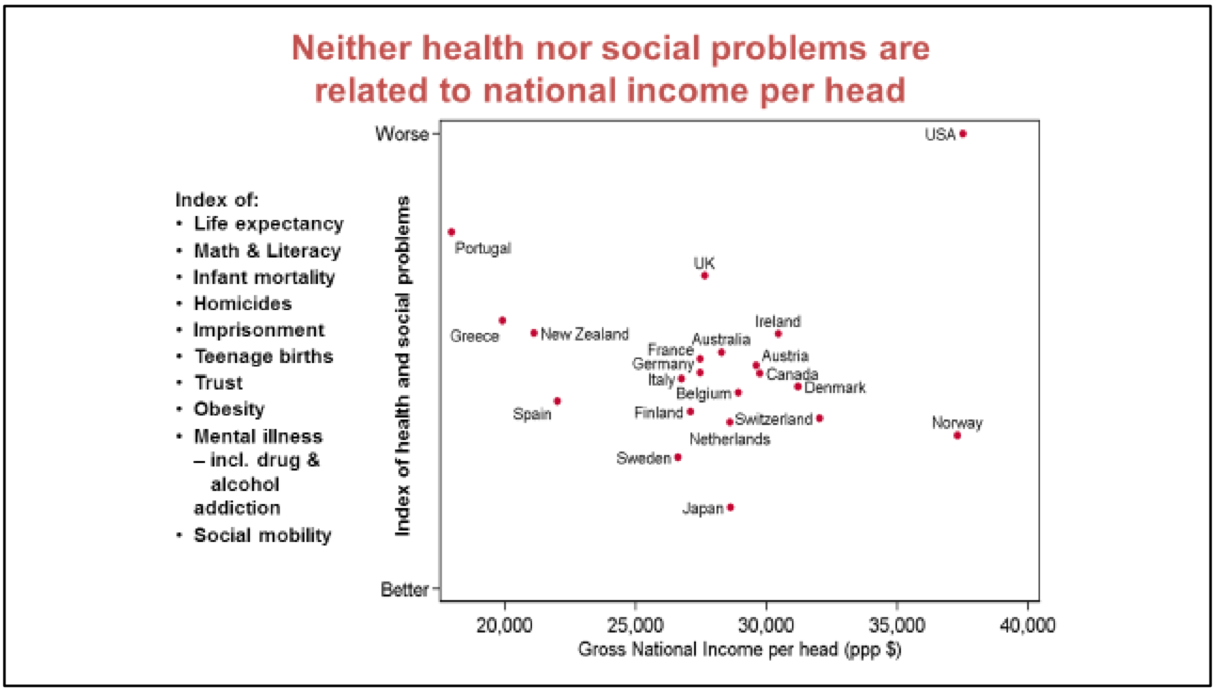

Figure 2 [adapted from Wilkinson and Pickett [15], p.21]

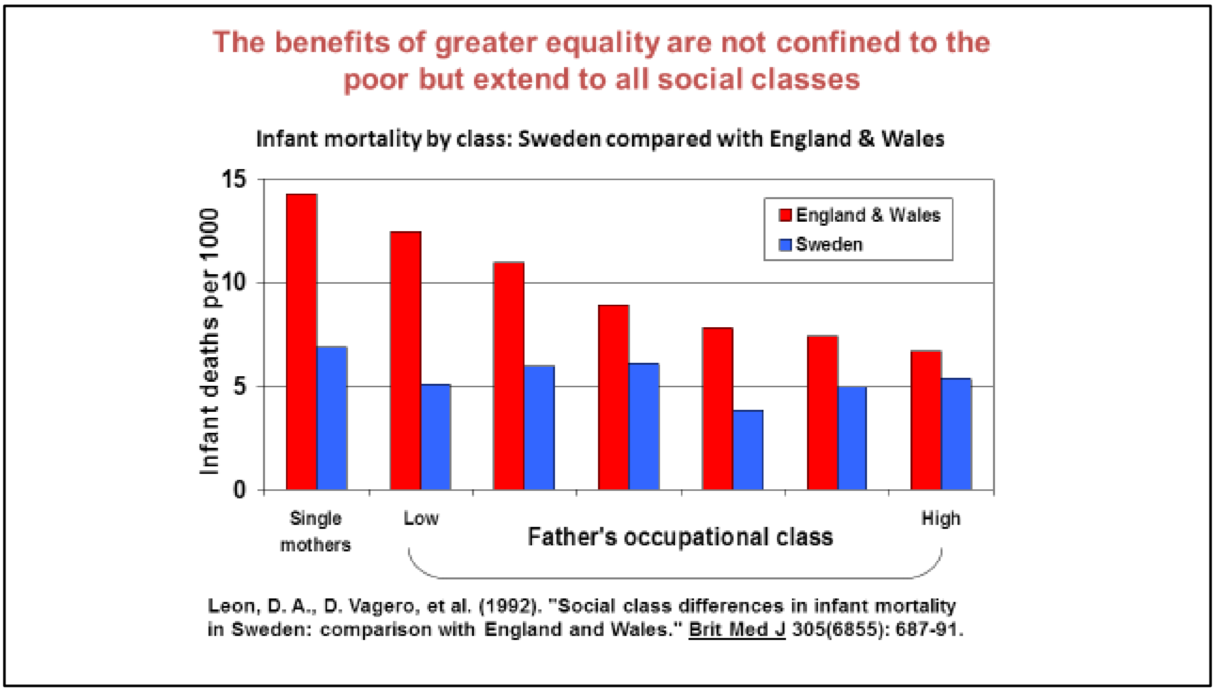

Figure 3 [adapted from Wilkinson and Pickett [15], p.179]